

**CITY OF CARLSBAD**  
**Carlsbad, California**

**SINGLE AUDIT REPORT ON EXPENDITURES  
OF FEDERAL AWARDS**

Year ended June 30, 2011

**CITY OF CARLSBAD**  
**SINGLE AUDIT REPORT ON EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2011

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**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

City Council  
City of Carlsbad, California

Independent Auditor's Report

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Carlsbad, California, as of and for the year ended June 30, 2011, which collectively comprise the City of Carlsbad's basic financial statements and have issued our report thereon dated November 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Carlsbad's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City of Carlsbad is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Carlsbad's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Carlsbad's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Carlsbad's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

City Council  
City of Carlsbad, California  
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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A significant deficiency is defined to be a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The matter identified in the accompanying Schedule of Findings and Questioned Costs as item 2011-01 conforms to this definition.

The City of Carlsbad's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Carlsbad's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, and management of the City of Carlsbad and is not intended to be and should not be used by anyone other than these specified parties.

*Mayor Hoffman McLane Pl.*

Irvine, California  
November 11, 2011





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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM, INTERNAL  
CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

City Council  
City of Carlsbad, California

Independent Auditor's Report

Compliance

We have audited the compliance of the City of Carlsbad, California, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City of Carlsbad's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City of Carlsbad's management. Our responsibility is to express an opinion on the City of Carlsbad's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Carlsbad's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Carlsbad's compliance with those requirements.

In our opinion, the City of Carlsbad, California complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

The management of the City of Carlsbad is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Carlsbad's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Carlsbad's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Carlsbad as of and for the year ended June 30, 2011, and have issued our report thereon dated November 11, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Carlsbad's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the City Council, management of the City of Carlsbad, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Margaret Hoffman, CPA*

Irvine, California  
November 11, 2011



CITY OF CARLSBAD  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2011

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Fed. Domestic Assistance Number	Pass-through Entity Identifying Number	Program Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Energy</u>				
Direct Programs:				
Energy Efficiency & Conservation Block Grant Program (ARRA)	81.128	DE-SC0001716	\$ 567,279	\$ -
Pass-through State of California: State Energy Program (ARRA)	81.041	DE-EE0000221	785,975 *	-
Subtotal - U.S. Department of Energy			1,353,254	-
<u>U.S. Department of Housing and Urban Development:</u>				
Direct Programs:				
Community Development Block Grant	14.218	B-08-MC-060563	187,282	187,282
Community Development Block Grant	14.218	B-09-MC-060563	397,533	315,452
Subtotal			584,815	502,734
Section 8 Housing Choice Voucher Program	14.871	CA077VO	6,356,974 *	-
Pass-through County of San Diego: HOME Investment Partnership Program	14.239	39673	118,988	29,000
Subtotal - U.S. Department of Housing and Urban Development			7,060,777	531,734
<u>U.S. Department of Justice:</u>				
Direct Programs:				
Narcotics Forfeitures & Seizures	16.999	N/A	19,396	-
Pass-through the City of San Diego: Edward Byrne Memorial Justice Assistance Grant (ARRA)	16.803	2009-SB-B9-0784	65,246	-
Subtotal - U.S. Department of Justice			84,642	-
<u>U.S. Department of Transportation:</u>				
Pass-through State Department of Transportation: Highway Planning & Construction- Coastal Rail Trail Project	20.205	CML-5308(005)	176,777	-
Subtotal - U.S. Department of Transportation			176,777	-

\* Major programs

## CITY OF CARLSBAD

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Fed. Domestic Assistance Number	Pass-through Entity Identifying Number	Program Expenditures	Amount Provided to Subrecipients
<u>National Foundation on the Arts and Humanities:</u>				
Pass-through the California State Library				
LSTA Library Grant Award - Public Staff Education	45.310	40-6252	14,544	-
Subtotal - National Foundation on the Arts and Humanities			14,544	-
<u>U.S. Department of Health and Human Services:</u>				
Pass-through the County of San Diego:				
Special Programs for the Aging - Title III-B	93.044	513847	20,905	-
Special Programs for the Aging - Title III-C	93.045	513847	144,998	-
Nutrition Services Incentive Program	93.053	513847	24,560	-
Subtotal - U.S. Department of Health and Human Services			190,463	-
<u>U.S. Department of Homeland Security:</u>				
Pass-through the San Diego County Sheriff's Department:				
Homeland Security Grant Program (Operation				
Stonegarden)	97.067	2009-1004	126,209	-
Homeland Security Grant Program (Operation				
Stonegarden)	97.067	2010-1085	85,449	-
Pass-through the San Diego County Office of Homeland				
Security:				
State Homeland Security Program	97.067	2008-006	58,173	-
Subtotal - U.S. Department of Homeland Security			269,831	-
<b>Total Federal Awards</b>			<b>\$ 9,150,288</b>	<b>\$ 531,734</b>

\* Major program



**CITY OF CARLSBAD**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2011

**(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

**(a) Scope of Presentation**

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Carlsbad, California (City) that are reimbursable under federal programs of federal financial assistance. For purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from non-federal entities. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized and the portion of program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

**(b) Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

**CITY OF CARLSBAD**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

(Continued)

**(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards, (Continued)**

**(c) Subrecipients**

For the fiscal year ended June 30, 2011, payments to subrecipients consisted of the following:

**Community Development Block Grant**

Boys & Girls Club Teen Scene	\$ 7,300
Casa de Amparo Food Program	6,000
Casa de Amparo Facility Predevelopment	330,319
Catholic Charities Predevelopment	79,815
La Posada de Guadalupe Shelter	9,500
From the Inside Out Youth Program	5,000
Interfaith Community Services	5,000
Meals on Wheels Food Delivery	5,200
Lifeline Afterschool Program	5,000
North County Health Services	9,100
Brother Benno Center	6,400
Carlsbad Recreation Opportunity Grants	5,000
Community Resource Center	7,000
Women's Resource Center Shelter	6,000
Fraternity House AIDS Caregiving	6,000
Center for Social Advocacy	<u>10,100</u>
Total	<u>\$502,734</u>

**HOME Investment Partnership Program**

Community Housing Works	<u>\$29,000</u>
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**CITY OF CARLSBAD**  
**SUMMARY OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2011

**(A) Summary of Auditors' Results**

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control over financial reporting based upon our audit of the financial statements of the auditee.
3. The audit disclosed no instances of noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The programs tested as major programs of the auditee were:
  - U.S. Department of Housing and Urban Development – Section 8 Housing Choice Vouchers, CFDA No. 14.871, and
  - U.S. Department of Energy – State Energy Program (ARRA), CFDA No. 81.041.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee met the criteria to be classified as a low risk auditee for the year ended June 30, 2011, for purposes of major program determination.

**(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS**

There was one audit finding required to be reported in accordance with GAGAS.

**(2011-01) Prior Period Adjustment**

The City of Carlsbad participates in a joint sewer construction project with a neighboring city, Vista. Carlsbad is the lead agency on the project and is reimbursed by Vista for Vista's share of the project, which is based on ownership percentages. In the prior year, Carlsbad recorded as an asset \$2,789,791 of construction in progress that should have been recorded as Vista's share of the construction costs. This is an isolated issue limited to the project in question due to the unique funding arrangement for the project. Upon detection by City internal controls, the City recorded a prior period adjustment to make the appropriate adjustment to the City's accounting records.



**CITY OF CARLSBAD**  
**SUMMARY OF FINDINGS AND QUESTIONED COSTS**

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS. (Continued)

Recommendation

We recommend that future projects be identified and recorded in a manner consistent with the funding arranged for the project.

Management's Response Regarding Corrective Actions Planned

The City concurs that a prior period adjustment has been made to correct the recording of construction in progress on a joint project. Going forward, the City will record similar transactions in the manner prescribed by Generally Accepted Accounting Principles (GAAP).

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no auditors' findings to be reported in accordance with paragraph .510(a) of OMB Circular A-133.

**CITY OF CARLSBAD**  
**STATUS OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2011

There were no prior audit findings for the year ended June 30, 2010.